PART 3. FUNDING: SOURCES AND USES

1. Sources of Funds:

The Department relied on three sources of funding to finance housing and community development projects, programs, and delivery costs. These include federal resources from the U.S. Department of Housing and Urban Development; local appropriated and Housing Production Trust Fund funds; “other funds” which is composed certain loan repayments; and the private investments that are leveraged with these public resources.

FEDERAL RESOURCES

Table 7 provides the data on FY 2004 federal funding sources and amounts.

Table 7: FY 2004 Federal Entitlement Grant Allocations

	CDBG	HOME	ESG	HOPWA	Lead
Allocation	$22,865,000	$9,179,000	$795,000	$9,862,000	$2,997,743 2,000,000

The following additional federal funds were available in FY 2004:

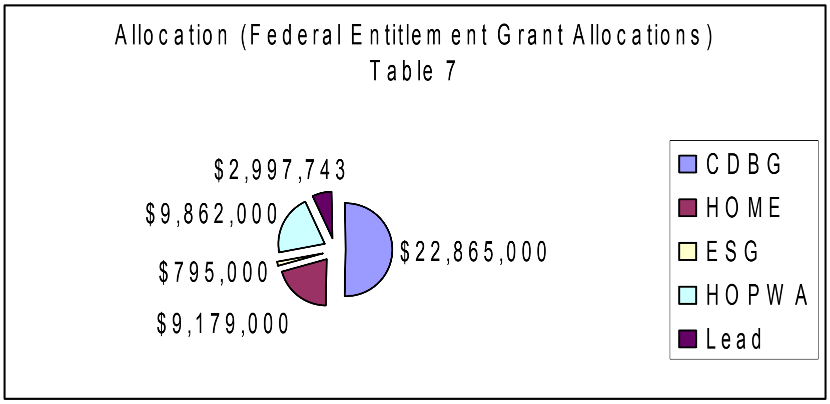
Program Income	$18,279,794	$940,719	$0	$0	$0
FY 2003* Carry Over	$9,157,004	$11,322,489	$1,458,847		

*Note: These carryover funds are not included in budget document that DHCD submits to the DC Council each year.

The net available federal funds for FY 2004 were:

Net available federal funds	$51,301,798	$21,442,208	$2,253,847	$9,862,000	4,997,743

FY 2003 Carryover includes budget authority carried over for un-liquidated FY 2003 and prior Purchase Orders for continuing activities as well as increased Program Income (PI) collections. DHCD initially budgeted $8,950,000 in Program Income for FY 2004. DHCD actually received over $19 million in PI for FY 2004.



DHCD serves as the administrator for the CDBG, HOME, and ESG grants.[2] The regional HOPWA EMA allocation is administered through and monitored by the D.C. Department of Health, HIV/AIDS Administration (HAA). HAA's various programs and use of funds are described in Part 5.

The Department also received two lead-based paint grants from HUD's Office of Healthy Homes and Lead Hazard Control beginning in FY 2004. These are: a Lead Hazard Control Grant for $2,997,743 and a Lead Hazard Reduction Demonstration Grant for $2,000,000. The District's match for these two grants totals $4,482,071. The use of the grant funds is described on page 13.

LOCAL RESOURCES

Local Resources include the Housing Production Trust Fund (HPTF), local District Appropriated funds, and loan repayments. Local funds are broken down as follows:

Table8: FY 2004 Local/Other Funds Allocations

	Housing Production Trust Fund	Local Appropriation	Loan Repayments	Lead Match	Other
Allocation	$40,124,693	$4,094,901	$7,140,000	$4,482,071	$46,000

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The Housing Production Trust Fund (HPTF or "Fund"), authorized by the Housing Production Trust Fund Act of 1988 as amended by the Housing Act of 2002, is a local

2[2] DHCD transferred administration and management of the ESG program to the Office of the Deputy Mayor for Children, Youth, Families and Elders and the program offices under that administration. The transfer will enhance the District's ability to coordinate its efforts on behalf of the homeless population through the Continuum of Care. With ESG added to its portfolio, the Deputy Mayor's office will be able to plan for and execute the full spectrum of Continuum of Care activities. HOPWA grant is administered by the DC Department of Health, HIV/AIDS Admin.

source of money for affordable housing development. The Fund is designed to direct assistance toward the housing needs of the most vulnerable District residents – very- and extremely-low income renters. Pending the receipt of feasible project proposals, the statute requires that:

- A minimum of 40 percent of all Fund monies disbursed each year must benefit households earning up to 30 percent of the area median income (AMI);
- A second minimum of 40 percent of the Fund monies must benefit households earning between 31 and 50 percent of the AMI;
- The remainder must benefit households earning between 51 and 80 percent of the AMI; and
- At least 50 percent of the Fund monies disbursed each year must be used for the development of rental housing.

The rest of the Funds may be used for for-sale housing development, single family housing rehabilitation, and loans and title-clearing costs associated with the Homestead Program.

Capital for the Housing Production Trust Fund is supplied from the legislated share of DC deed recordation taxes and real estate transfer taxes. DHCD also receives a separate local budget appropriation and loan repayments from its Home Purchase Assistance Program which it uses to make more loans within these programs. Finally, under other funds, the "Portal Site" is revenue generated from District-owned parking lots and the disposition of District-owned property. The revenue ($46K) is a pass-through to the District and is budgeted for miscellaneous administrative expenses related to these activities.

LEVERAGED FUNDS

Home Ownership: DHCD provided more than $3.4 million in direct loans of federal and local funds through the Home Purchase Assistance Program (HPAP) to support homeownership opportunities for low- and moderate-income residents. The HPAP borrowers in turn leveraged $31.3 million in first trust private financing – a private: public ratio of 9:1.

Development Finance: The grant award criteria of the District's housing and community development programs require the maximum use of private financial resources. Public funds are used to "close the gap" in providing the financing needed for selected projects. Therefore, the District's housing production programs are expected to leverage a significant level of private funds. At the same time, however, DHCD recognizes that – with the District's high real estate costs – projects that serve lower income households will require higher levels of subsidy. In FY 2004, DHCD leveraged approximately $4.08 for every dollar of HOME or CDBG spent on housing, commercial facilities and community facilities.

Leverage from all sources of funds was $ 6.71 for each public dollar.

MATCHING FUNDS

There are two programs requiring matching funds: HOME and the Emergency Shelter Grant (ESG). In addition, In FY 2004, DHCD also provided matching funds for the two lead-based paint grants it received: the Lead Hazard Control Grant and the Lead Hazard Reduction Grant.

Under 24 CFR 92.218 *et. seq.*, the District must provide a matching contribution of local funds to HOME-funded or other affordable housing projects as a condition of using HOME monies. The District's FY 2004 contribution was 12.5 percent of its non-administrative HOME draws. (The District has received a 50 percent reduction in its match requirement for HUD Program Year 2003, which is the District's Fiscal Year 2004.) The District's 2004 Match liability was $172,886.74 which was met by using excess Match from prior federal fiscal years. (See Part 4 for discussion of HOME and ESG matches, and Appendix E for Home Match Report.)

Low Income Housing Tax Credits:

The low-income housing tax credit (LIHTC) program, created in 1986 and made permanent in 1993, is an indirect federal subsidy through the Internal Revenue Code used to finance the construction and rehabilitation of affordable rental housing. Washington lawmakers created the LIHTC as an incentive for private developers and investors to generate investment in affordable housing. Typically, affordable rental housing projects do not generate sufficient profit to warrant the necessary investment.

The LIHTC is a dollar-for-dollar reduction in federal tax liability of the investors in exchange for providing investment funds to develop affordable rental housing. The tax code allows a dollar-for-dollar payment of the tax obligation of the investors with the LIHTCs received for the equity contribution in the affordable housing. Thus the investor may invest a sum based upon the amount of tax credits to be received from the housing that will allow the investor to receive his return solely from the tax credits. This allows rental units to be developed at below-market rates because the rents repay the debt financing and the tax credits repay the equity investment.

LIHTC projects must meet income eligibility requirements for the tenants; in other words, owners must keep the units rent restricted and available to low-income tenants for at least 30 years.

Nine (9) Percent vs. Four (4) Percent

The tax credit can be used to construct new buildings, or to renovate existing rental buildings. The LIHTC is designed to subsidize either 30 percent or 70 percent of the low-income unit costs in a project.

The 30 percent subsidy, which is known as the so-called automatic 4 percent tax credit, covers new construction that uses additional subsidies or the acquisition cost of existing buildings. The 70 percent subsidy, or 9 percent tax credit, supports new construction without any additional federal subsidies, claimed pro rata over 10 years.

Rental properties that qualify for the LIHTC tend to have both lower debt service payments and lower vacancy rates than market-rate rental housing. LIHTC properties typically experience a relatively quick lease-up and offer strong potential economic returns, primarily due to the existence of the credit. LIHTC properties are often packaged as limited partnerships such that they afford limited liability to their investors.

Tax credit housing is generally located where the land costs are lower and the tax credit allowable rents are sufficient to allow for market-rate rents. Nonetheless, with the help of additional federal, state and local subsidies, many developers have made these projects financially feasible. The LIHTC program can offer developers and investors great opportunities to provide quality affordable housing to low-income residents and an opportunity to earn a profit.

DHCD did not apply Low Income Housing Tax Credits during FY 2004.

2. Uses of Funds:
The following pages contain information on DHCD use of funds in FY 2004 for affordable housing, and community development projects by source and program.

Tables 9-12 display DHCD’s FY 2004 Budget allocations for use of federal funds in the CDBG, HOME, ESG and HOPWA programs.

DHCD PROGRAM FEDERAL FUNDS BUDGETS

Table 9: FY 2004 CDBG Program (CD-29) Budget

1.	**Homeownership and Home Rehabilitation Assistance**	
a.	Home Purchase Assistance Program (HPAP)	$ 2,250,989
b.	Single Family Residential Rehabilitation Program	1,648,503
c.	Homestead Housing Preservation Program	1,244,971
d.	Home Ownership Developer's Incentive Fund (HODIF)	100,000
Subtotal		**$5,244,463**
2.	**Affordable Housing/Real Estate Development**	
a.	Development Finance Division Project Funding	$26,312,389
b.	Tenant Apartment Purchase	508,001
c.	Real Estate Acquisition and Disposition	0
d.	Title VI	0
Subtotal		**$26,820,390**
3.	**Neighborhood Investment**	
a.	Neighborhood-Based Activities (including NISP & CASSP)	$8,079,941
Subtotal		**$8,079,941**
4.	**Economic and Commercial Development**	
a.	Economic Development	$155,524
b.	Real Estate Services and Property Management	147,794
c.	National Capital Revitalization Corporation (RLA-RC)	$4,500,615
Subtotal		**$4,803,933**
5.	**Agency Management Program**	**$5,534,083**
6.	**Program Monitoring and Compliance**	818,988
Total CDBG Program		**$51,301,798**

Table 10: FY 2004 HOME Program Budget

1.	**Agency Management Program**	
a.	Property Management	$1,019,508
Subtotal		**$1,019,508**
2.	**Affordable Housing/Real Estate Development**	
a.	DFD Project Financing	$12,886,331
b.	Tenant Apartment Purchase Activity	2,186,611
Subtotal		**$15,072,942**

1. **Agency Management Program**	
3. **Homeownership and Home Rehabilitation Assistance**	
a. Home Purchase Assistance Program	$4,286,741
b. Single Family Residential Rehabilitation	1,065,017
Subtotal	**5,351,758**
TOTAL HOME Program	**$21,442,208**

Table 11: FY 204 Emergency Shelter Grant Budget

Homeless Support and Prevention	
Emergency Shelter Grant Management	$2,253,847
TOTAL ESG Program	**$2,253,847**

Table 12: FY 2004 Housing for Persons With AIDS Program EMSA-Wide Budget

HOPWA Eligible Activity	
1. Housing Information Services	$207,592
2. Resource Identification	
3. Acquisition, Rehab., Conversion, Lease, and Repair of Facilities	
4. New Construction, Dwellings and Community Residences	
5. Project-based Rental Assistance	400,000
6. Tenant-based Rental Assistance	6,223,248
7. Short-term rent, Mortgage, and Utility Payments	1,068,961
8. Supportive Services	483,711
9. Operating Costs	435,688
10. Technical Assistance	100,000
11. Administrative Expenses – 7% Cap	659,960
12. Administrative Expenses Grantee 3% Off the Top Total HOPWA Formula Award	282,840
TOTAL HOPWA Program	**$ 9,862,000**